Wellington Climate Strategy Fund

WELLINGTON MANAGEMENT®

MARKET REVIEW

Global equities rose in January. The transition of power in the US brought meaningful changes to outlooks for foreign policy, trade dynamics, and economic growth. The Trump administration's protectionist policies and territorial ambitions created a complex economic and political landscape that strengthened the US dollar and increased economic uncertainty, raising concerns about potential trade-related inflation. Against this backdrop, the US Federal Reserve held interest rates unchanged, while the European Central Bank and Bank of Canada lowered policy rates. Japan's central bank raised rates for the third time since March 2024 following a prolonged pause. The US announced plans for a multi-hundred-billion-dollar investment in the AI project "Stargate" with aims to invest heavily in AI infrastructure, but the release of two competitive large language models by Chinese startup DeepSeek caused investors to question the long-term monetization structure of the foundational large language models developed by US technology companies. Europe's economy slowed in the fourth quarter, with the eurozone's GDP rising just 0.8% in 2024. In contrast, US GDP grew by 2.8%, and China's economy expanded by 5%, meeting the government's official target. Canadian Prime Minister Justin Trudeau resigned as leader of the ruling Liberal Party and as prime minister. The Israel/Hamas ceasefire went into force, with Hamas releasing three hostages in exchange for 90 Palestinian prisoners.

FUND PERFORMANCE AND ATTRIBUTION

- In January, Climate Strategy generated positive returns on an absolute basis and relative to the strategy's reference index. Over the month, each of our climate themes contributed to returns, led by our Energy Efficiency theme.
- The top absolute contributor to monthly performance was Acuity Brands, a provider of energy efficient technology within our Energy Efficiency theme. Acuity Brands is a leader in efficient lighting solutions which reduce their customers' energy use and costs. The stock was strong in January after the company announced solid quarterly earnings and raised guidance to reflect the recently closed acquisition of QSC, a leader in cloud-enabled audio, video, and control solutions, that we believe will create synergies and expand margins.
- The top absolute detractor to monthly performance was Sempra, a utility company within our Low Carbon Electricity theme. Sempra provides clean and reliable energy, primarily electricity and natural gas, to consumers in California, Texas, and international markets. The stock sold off alongside other California utility stocks in January amidst the tragic Los Angeles wildfires. The sell off was amplified by market speculation that Edison International, another California utility, may have caused the ignition of the Eaton fire. We pared back the position to manage risk. We consider Sempra's wildfire risk well-managed; we consider their fire prevention and mitigation practices (circuit sensitivity adjustment, pre-emptive power shutoff, underground lines, etc.) best in class and we are constructive on their service market diversification. Fundamentally, we maintain conviction in Sempra's ability to continue to execute on structural growth tailwinds including datacenter-driven power growth, demand for liquefied natural gas, and increased electrification.

FUND POSITIONING AND OUTLOOK

The distribution of fundamental outcomes remains very wide, as markets wrestle with the impact of wildfires in Los Angeles, an action-packed start to President Trump's second term, implications of DeepSeek on the outlook for AI and data centers, and more. Despite the volume of market news and, in some cases, noise, we remain focused on the secular opportunities for climate mitigation and adaptation solutions, particularly from reasonably priced companies that can improve or sustain attractive returns on equity.

In January, we eliminated our position in Aspen Technology, a leading industrial software company that is being acquired by Emerson at a price at which we no longer see upside. We do see compelling upside in Procore Tech, a newly initiated position in our Climate Resilient Infrastructure theme, which provides construction management software aimed at increasing efficiency and ensuring project success. Within the same theme, we also initiated a new position in Rollins, which provides pest control services to residential and commercial customers. The demand for these services is rising, partly due to a warmer environment that allows pests to live longer, in larger numbers, and in more regions. We also eliminated our position in nVent Electric, which provides electrical connection and protection solutions to end markets such as data centers, as the position had contributed positively to returns and we sought to rationalize our exposure to the data center capital expenditure buildout.

RISKS

CAPITAL: Investment markets are subject to economic, regulatory, market sentiment and political risks. All investors should consider the risks that may impact their capital, before investing. The value of your investment may become worth more or less than at the time of the original investment. The Fund may experience a high volatility from time to time. **CONCENTRATION:** Concentration of investments within securities, sectors or industries, or geographical regions may impact performance. **CURRENCY:** The value of the Fund may be affected by changes in currency exchange rates. Unhedged currency risk may subject the Fund to significant volatility. **DERIVATIVES (C) (MKT):** Derivatives may provide more market exposure than the money paid or deposited when the transaction is entered into (sometimes referred to as Leverage). Market movements can therefore result in a loss exceeding the original amount invested. Derivatives may be difficult to value. Derivatives may also be used for efficient risk and portfolio management, but there may be some mismatch in exposure when derivatives are used as hedges. **EMERGING MARKETS:** Emerging markets may be subject to custodial and political risks, and volatility. Investment in foreign currency entails exchange risks. **EQUITIES:** Investments may be volatile and may fluctuate according to market conditions, the performance of individual companies and that of the broader equity market. **MANAGER:** Investment performance depends on the investment management team and their investment strategies. If the strategies do not perform as expected, if opportunities to implement them do not arise, or if the team does not implement its investment strategies successfully; then a fund may underperform or experience losses. **SMALL AND MID-CAP COMPANY:** Small and mid-cap companies' valuations may be more volatile than those of large cap companies. They may also be less liquid. **SUSTAINABILITY:** A Sustainability Risk can be defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

PAST PERFORMANCE DOES NOT PREDICT FUTURE RETURNS. AN INVESTMENT CAN LOSE VALUE.

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